

**SUMMARY OF POLICY POSITIONS ADOPTED
AND POLICIES IMPLEMENTED BY UNMIK**

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Prepared by IFDC-Kosovo Association Policy Support Unit (APSU)

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EXECUTIVE SUMMARY

The establishment by UNMIK regulation of the Department of Agriculture, Forestry and Rural Development (DAFRD), in April 2000 and its evolution and interaction with other departments and organisations in its first year, was the single most important policy development of the past year.

In response to constraints faced by DAFRD in financing and personnel, a new project was initiated in May 2001 to assist in building up its capacity to formulate and implement policy through staff training and increased contact with producer associations. This development was particularly timely as DAFRD has now begun taking over functions previously performed by the FAO and other organizations during the emergency relief phase of the UN mandate.

Under the initial Needs Summary agreed with USAID, KADP focused its policy efforts in the areas of trade, government intervention in the economy and regulation, aiming to monitor agricultural policy developments, analyze specific issues and advocate recommendations in conjunction with other related projects and official bodies.

The first major attempt to reform agricultural policy in Kosova came in July 2000 with the distribution of a policy paper pointing out the detrimental nature of the fiscal system for agricultural production and suggesting an exemption from customs duty for imports of agricultural inputs such as fertilizer, seed and CPCs. Successful advocacy of this position by project and USAID representatives resulted in the lifting of the 10% customs duty on fertilizer from October 2000.

A second initiative examined the situation faced by the Kosovar flour milling industry, traditionally one of the strongest sectors in the agro-industrial complex. War, over-capacity and lack of wheat supplies had brought the milling sector close to collapse. The paper therefore recommended assistance through removing tax exemptions on the import of flour and freeing wheat imports from the 10% of customs duty. Acknowledging that a large number of Kosovar mills would face closure, KADP attempted to find alternative uses for the facilities by reviewing the possibilities for conversion to feed milling. By joining calls for an end to the emergency relief effort and a switch to developmental policy, the APSU also succeeded in getting customs duties imposed on imported flour from June 2001.

The three fledgling trade associations under development by KADP proved themselves important vehicles for both developing policy strategy and effecting reform. By March 2001 KADP had organized them into an umbrella organization, known as the Alliance of Kosova Agribusinesses (AKA), for the purpose of joint policy formulation and advocacy and to provide a sustainable basis for future activity on the withdrawal of IFDC specialists and USAID financing.

In conjunction with AKA, APSU developed a set of policy priorities that included the removal of customs duties on a number of key agricultural inputs that were constraining development in the sector. These included seed, CPCs and wheat (as mentioned above) as well as animal feed ingredients without which the restocking of the Kosovar herd was severely constrained. It therefore produced a series of analyses and organized seminars and meetings with key decision-makers in order to continue the dialogue for reform.

A further policy priority agreed with AKA was the commercialization and privatization of state and socially owned agricultural assets in order to restart production on some of the largest and most fertile land in the territory. In conjunction with the DAFRD and DTI, APSU staff worked on a new initiative that developed the DTI's procedure for commercialization of industrial and commercial enterprises and extended it to include farmland and related non-land assets. By end May 2001 the first socially owned farm *Produkti*, with some 2,400 hectares of land and 100 employees in Skenderai municipality, was up for tender.

From June 2001, the APSU will be headed by a full time policy advisor who will follow-up on ongoing policy goals such as building up the capability of AKA, fiscal reform and commercialization / privatization. At the same time the APSU will work with short-term specialists on new strategies to assist in such areas as crop diversification and quality control and food safety.

1. Summary of Policies Implemented by UNMIK

1.1 The Agricultural Policy Environment in Kosova 2000 - 2001

The joint efforts of three distinct groups of people were involved in agricultural policy over the last year in Kosova. The primary institution is the Department of Agriculture, Forestry and Rural Development (DAFRD), which is responsible for overall policy development. The second is the multitude of advocacy groups including NGOs, trade associations and other interest groups. The last group is the legislature and its subcommittees, which enable new policies to be implemented through strategies, programs and projects.

The main players in agricultural policy over the last year are briefly listed below:

Department of Agriculture, Forestry and Rural Development (DAFRD). The DAFRD is responsible for the overall management matters relating to agriculture, forestry rural development in Kosova and implement the policy guidelines formulated by the Interim Administrative Council in the field of agriculture, forestry and rural development. The Department of Agriculture has established divisions with three Kosovar division chiefs and one expatriate in acting capacity.

Department of Trade and Industry (DTI). Although the DTI is not directly involved in agricultural policy formulation, it is in charge of all privatization/commercialization activities of state and socially owned enterprises, and has therefore proved instrumental in implementing commercialization strategies and developing positions that have implications for agricultural SOEs.

Department of Public Utilities (DPU). The involvement of the DPU in agricultural policy stems from their responsibility over public irrigation schemes, which are in disrepair and need of rehabilitation.

Department of the Environment (DE). This department will have a growing involvement in agricultural policy with views on fertilizer and crop protection chemical (CPC) use as well as water resources, soil erosion, and protection of flora and fauna in the country.

World Bank. The World Bank has undertaken a number of interventions in Kosova until now in damage assessments and re launching activities in agricultural sector

European Agency for Reconstruction (EAR). The EAR has established an agribusiness unit to design and implement activities to assist private and socially owned enterprises and has an interest in the formulation of agricultural policy for agricultural enterprises.

Central Fiscal Authority (CFA). The CFA has established a macroeconomic advisory unit to look into the implications and distortions that may result from the current system of tariffs, duties and various taxes. As such it plays a vital role in establishing an environment which is conducive the resuscitation of the agricultural sector in Kosova.

Food and Agriculture Organization (FAO). The FAO was initially closely involved in coordinating emergency assistance to Kosova. Once the DAFRD had been established and Kosovar requirements were seen to be progressing from emergency relief to development, the FAO began handing over its responsibilities to the department and scaling back its activities.

United States Agency for International Development (USAID). As the representative of the U.S. Government responsible for development activities USAID has committed substantial resources to reactivate the agricultural sector including the sponsorship of the IFDC Kosova Agribusiness Development Program (KADP).

1.2 UNMIK Regulations Affecting Agriculture

The most important UNMIK regulation affecting Kosovar agriculture in the 2000-1 period was Regulation 2000/27 of April 2000 On the Establishment of the Administrative Department of Agriculture, Forestry and Rural Development.

1.2.1 Regulation 2000/27 of April 28th 2000

On the Establishment of the Administrative Department of Agriculture, Forestry and Rural Development

Objective of the regulation

To establish the DAFRD as the official body, under UNMIK Pillar II for Civil Administration, responsible for policy development and implementation in the fields of plant production and protection, animal production and health, forestry and statistics.

Main components of the regulation

a) Establishment of DAFRD

DAFRD is to be responsible for the overall management of matters relating to agriculture, rural development in Kosova and for implementing the policy guidelines formulated by the Interim Administrative Council in the field of agriculture, forestry and rural development.

b) Functions of the Department

Provision of policy recommendations to the Administrative Council in the following broad areas:

- i) overall strategy for the development of non-discriminatory, efficient, transparent and accountable agriculture, forestry and rural development in Kosova;
- ii) the regulatory framework for agriculture;
- iii) formulation of programs and budgets for the development of agriculture, forestry and rural development.

Co-ordination of activities in the following areas:

- i) with other UNMIK departments on matters relating to agriculture, forestry and rural development;
- ii) with international and governmental agencies and NGOs in order to promote the coherent development and implementation of agricultural, forestry and rural development policies.

Formulation and implementation of policies in the following areas:

- i) land use, aimed at protecting agricultural land. This was to include criteria for re-allotting public land and modifying land use without confiscation;
- ii) water resources management and assistance in the development of irrigation schemes;
- iii) other policies, for the development of agriculture, forestry and rural development within the framework of the Kosova Consolidated Budget.

Supervision in conjunction with other departments of the following;

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- i) in coordination with the Department of Health and Social Welfare, ensuring adherence to health standards relating to agriculture, forestry and rural development and the provision of veterinary services;
 - ii) prevention of animal disease and improvement of livestock quality;
 - iii) provision of quality control services for food and agricultural inputs to protect consumers in relation to domestic production, imports and exports;
 - iv) activities aimed at eradicating pests, vermin, plant diseases etc.;
- Participation with other related departments in the following activities:
- i) development of credit schemes aimed at supporting the private sector in agriculture, forestry and rural development;
 - ii) participation in environmental protection activities related to agriculture, forestry, hunting and water resources management.

Comments

The most important component of this regulation was the actual establishment of the DAFRD. As such, the regulation was a positive development in that it allowed the emergence of a structured regulatory environment for agriculture, forestry and rural development in Kosova. It was hoped DAFRD practice would reflect standard European practices for agriculture, forestry and rural development.

1.2.2 Other Regulations and Decisions

Regulation 2000/69 On the Importation of Live Animals into Kosova

Objective of the regulation

To establish a range of veterinary / animal health controls on the import of live animals into Kosova and to prevent the import of animal disease.

Main components of the regulation

- *Licensing requirements.* The import of live animals into Kosova now requires a license;
- *Veterinary certificates.* Applications for licenses must be accompanied by an original veterinary certificate, issued by the country of export;
- *Institutional framework.* The Animal Health Division of the DAFRD will issue licenses for DM50;
- *Border crossings.* Live animals can now only enter Kosova through three international border points;
- *Boundary crossings.* Live animals from Yugoslavia can only enter Kosova from two crossings;
- *Quarantine requirements.* Quarantine is required for all imports to Kosova in designated holding stations for a minimum of 28 days.

Comments

This regulation establishes an appropriate regulatory environment for livestock production in Kosova. The most significant component the precedent established to control ‘boundary crossings’ between Kosova and Serbia. The precedent allows for other quality control measures to be put in place to protect against the dumping of other inferior agriculture and food products on the Kosova market. There are currently no guidelines available on the minimum health requirements for export certificates. It will be important to determine these in detail if adequate protections are to be put in place to prevent import of

regionally endemic diseases. There is no reference to the types of testing to be undertaken during the mandatory quarantine period. These should be outlined and standard costs established for such services.

Executive Decision On the Control of Transmissible Spongiform Encephalopathies in Kosova

Objective of the decision

BSE was a serious threat to Kosova as result of restocking programs that were importing cattle from western Europe. The decision therefore attempted to protect the Kosovar herd from the disease.

Main components of the decision

The decision on the control of transmissible spongiform encephalopathies in Kosova prohibits use of the following:

- feed protein derived from mammalian tissues to be fed to any farmed animals;
- fertilizers containing protein derived from all mammalian species;
- animal feed containing bone and meat meal;
- fertilizers containing protein derived from all mammalian species.

Executive Decision On Control Measures against Entry of Foot and Mouth Disease into Kosova

Objective of the decision

The decision aimed to impose control measures against entry of foot and mouth disease into Kosova.

Main components of the decision

The decision cites that no person or entity shall import or introduce into the territory of Kosova the following:

- any live cloven-hoofed animal originating from the UK;
- any fresh meat, meat products or products prepared using meat from cloven-hoofed animals originating from the UK;
- any milk coming from the UK apart from UHT milk or sterilized, dried or heat treated milk;
- any semen, ova or embryos of cloven-hoofed animals coming from the UK (except semen produced before 1 February 2001).

Comments

These two decisions can be seen as appropriate and timely responses by the DAFRD to real threats to the Kosovar herd and which also had repercussions for quality control and food safety.

1.3 Other Policy Related Developments

DAFRD Development under EFRP Capacity Building Project

The EFRP Capacity Building Project was initiated in late May 2001 in order to build up the policy development and implementation capacity of the DAFRD, which was viewed as undermanned and underfunded. Of particular relevance to IFDC's activities in the territory is the producer association component of the project which aims to review the current status of such associations in Kosova and to strengthen their role in agriculture sector development.

The main task of the producer association component are as follows:

- obtain first hand experience of association activities, objectives and constraints;
- determine the current legal basis for such associations;
- determine the predominant forms, number, membership, roles and activities of the associations;
- determine the need for future support to producer associations;
- review post war programs of support to such associations by NGOs and donor agencies to determine the regional focus of support, the types of associations supported, and the forms of support.

The most significant aspect of this component is the intent to strengthen the associations and their role in agriculture sector development. The project is thus a very positive development and may help create an appropriate legal basis for producer associations in Kosova.

2. KADP Policy Approach

USAID uses the Index of Economic Freedom as an indicator in the implementation of its strategic plan in order to score country progress on private sector led growth. The premise that underlies the index is that there is a strong correlation between levels of economic freedom and levels of development, both being dependent on well-functioning institutions including court systems, institutions that support financial markets, tax systems, etc.

The index includes ten economic factors and some fifty economic variables that can be used as a classification device for economic policy issues. The ten categories are;

- i) Trade
- ii) Fiscal burden of government
- iii) Government intervention in the economy
- iv) Monetary policy
- v) Capital and foreign investment
- vi) Banking
- vii) Wages and prices
- viii) Property right
- ix) Regulation
- x) Black market

The Index serves as a comprehensive way to frame policy issues throughout the grant period and to clarify policy issues and their contributions to building economic freedom. As USAID has developed its approach to the development of an enabling framework for private sector development and the implementation of key policy initiatives in Kosova, the index was modified for use by IFDC's KADP. It was recommended that IFDC focus its efforts on activities in three policy areas;

- i) Trade
- ii) Government intervention in the economy
- iii) Regulation

Based on analysis of the Index, a Needs Summary was developed that provides an overview of the areas where it was felt that IFDC could best make interventions. The summary also covered the resources needed and outputs expected. It was recommended that the IFDC should:

- Monitor all agricultural policy related matters using the Index of Economic Freedom as a guide;
- Analyze selected policy issues based on joint reviews with USAID of the quarterly policy summaries and the Index of Economic Freedom;
- Advocate policy recommendations with agribusiness associations and or UNMIK and other donors as appropriate;
- Conduct special studies and analysis that are identified and linked to other donors' programs.

3. KADP Policy Positions on Agribusiness Development in Kosova

For consistency and ease of understanding, the Kosova Agribusiness Development Program (KADP) reports largely follow the format of the work plan submitted to the United States Agency for International Development (USAID) in June 2000. In this document progress is reported only for the Agribusiness Policy Support Unit (APSU). Regular updates on APSU activities and progress can also be found in the monthly and quarterly reports submitted by KADP.

A series of short-term policy specialists visited Kosova during the project year 2000-1, producing the following statements and recommendations on agricultural policy in the territory:

1. *Taxation of Agricultural Inputs in Kosova; Policy Options for Win-Win Resolution* Thomas L. Hutcheson, July 2000
2. *Policy Issues Facing the Flour Industry in Kosova* Maurice Sullivan, October 2000
3. *Status of Technical Work on Agricultural Policy and Recommendations for a Policy Framework for Kosova and Status of Technical Work on the Privatization / Commercialization of Agricultural Assets in Kosova* Rifat Barokas, November 2000
4. *Establishment of a Level Playing Field for Kosovar Agricultural Products and Proposed Removal of Customs Duty on Specific Agricultural Products* Adrian Neal, March 2001
5. *Promoting Effective Use and Protection of State and Socially Owned Farmland in Kosova* Daniel Themen, April 2001

3.1 *Taxation of Agriculture Inputs in Kosova; Policy Options for Win-Win Resolution, July 2000*

In October 1999, as an interim measure, UNMIK imposed a set of customs duties (of 10%) and sales taxes (15% but collected only at the border), combining to add 26.5% to the cost of imports. The policy paper outlined the following primary shortcomings of such a fiscal framework:

1. Exemptions and excessive rates on items with very elastic demand unnecessarily reduce budgetary revenues that could be collected if the taxes were lower but applied more broadly;
2. High tax and customs duty rates act as a disincentive both to agricultural output and to technological change in agriculture;
3. Development of an articulate network of agricultural input suppliers;
4. Redistribution objectives cannot be met by border taxes;
5. Exemptions of goods imported by official agencies and NGOs make for complicated, costly, and potentially corrupt administration.

The paper proceeded to make the following recommendations on fiscal policy reform in order to readdress the shortcomings listed above:

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- Removal of customs duties on all imports while maintaining the 15% sales tax;
 - Limiting exemptions from remaining taxes on imports by official agencies and NGOs to those for their own use only;
 - Ensuring at the very least changes to the taxation of agricultural inputs are made prior to the autumn planting season;
 - Accepting that changes in the taxation of agricultural inputs are the first step in a comprehensive reform to move toward reliance on internal taxation (VAT and/or income tax) rather than taxes on trade;
 - Enforcing proper collection and publication of data on trade and taxation to permit analysis and public discussion of UNMIK interim legislation in this field.

On publication of the above paper, IFDC presented the case to UNMIK that its combined tariff and sales tax of 26.5% on fertilizer, compared to free entry for donated shipments, served as a disincentive and was creating a significant net loss to both the budget and economic development.

Among its top priorities, the KADP supported associations advocated for the reduction of taxation on imports of fertilizer. In May, the KODAA board of directors developed a plan for an orchestrated campaign to oppose the tax. The KADP offered assistance, helping them to produce rational economic arguments and analysis and effective advocacy.

The paper's recommendations were particularly useful in shaping the policy agenda for the campaign to reduce tariff distortions, which ended in success. ***The total taxes on fertilizer imports were reduced from 26.5% to 15% on October 6th 2000*** (by the exemption of fertilizer from the 10% import duty).

3.2 Policy Issues Facing the Flour Industry in Kosova, October 2000

This report was undertaken in response to the major problems faced by Kosova's flour industry. These included an excess capacity of mills as Kosova had acted as the milling center for Serbia. Wheat, produced in province of Vojvodina in Northern Serbia, had traditionally supplied Kosova's mills, the flour then being distributed throughout Serbia. With the conflict however, this infrastructure broke down and a number of Kosova mills were destroyed or damaged. As a result, there was a shortage of wheat supplies even for those mills still able to operate and Kosova began importing flour.

The primary findings and recommendations of the report were as follows:

- The Kosova wheat deficit for the 2000-1-crop year was estimated at 176,000 tonnes after taking into account planned food aid and wheat seed donations.
- Imported wheat from third countries was subject to a cumulative tax of 26.5% whereas flour was free of tax (an exemption allowed by UNMIK in an attempt to ensure that there was adequate flour to feed the population). The paper proposed putting imports of wheat and flour from third countries on a 'level playing field' with imports from Serbia (i.e. removing the 10% customs duty on wheat).
- Wheat, as a subsistence type of farming, should be allowed to give way in Kosova to high value intensive cropping if the agricultural sector is to make the much-needed positive contribution to economic growth. In this context it is projected the area under wheat should halve over the next seven years.
- It is further estimated that the number of mills in Kosova will halve over the next seven years in response to market forces.

- The retention of a buffer stock of wheat as a strategic reserve should be considered.
- Large tracts of agricultural land (mostly state and socially owned) remain fallow and devoid of mechanization. The paper suggests that such land be leased in farming blocks that could be farmed commercially.
- Leasing of state and socially owned milling facilities, as a prelude to privatization is unlikely to improve their sustainability unless it is accompanied by a large injection of capital.

Follow up to the paper consisted of two primary tasks. Firstly alternatives to flour milling for the functioning mills were considered. Consultants from the Swiss company Buhler were brought in to assess the potential for converting excess flour milling facilities into feed mills. As a result of such cooperation they proposed to invite the board members of flour association to visit Austria on a study tour. They further agreed to hold a seminar on modern flourmill technology on July 2001 and to write a report on the current environment and prospects for the flour milling industry in Kosova.

The project also advocated the establishment of a level playing field through the imposition of the 10% customs duty on imported flour as the emergency relief phase of UNMIK's mandate drew to a close. The decision was finally made to *tax flour imports at the same rate as wheat from June 1st 2001*, thus removing a distortion that penalized the domestic milling industry.

3.3 Status of Technical Work on Agricultural Policy and on the Privatization / Commercialization of Agricultural Assets, November 2000

The paper presents the status of the technical work undertaken on agricultural policy and presents recommendations for a policy framework. This chapter looks at agricultural and trade issues from three timeframes:

- The short term is characterized by increased imports of inputs as well as continuing grain, livestock and other food imports.
- The medium term envisions a decrease in wheat and maize acreage coinciding with an increase in yields. Furthermore, land deconsolidation, crop diversification and changes in rural employment patterns are expected to increase significantly.
- The long term is expected to be characterized by the following trends:
 - a) increases in average farm sizes and dramatic changes in cropping, moving away from traditional patterns.
 - b) changes in livestock ownership patterns as more emphasis is placed on commercial herd sizes for dairy and beef production as well as production of mutton and poultry.

The paper also assesses the process of privatization /commercialization of agricultural assets in Kosova and identifies the following constraints to progress in the resolution of ownership issues regarding agricultural land:

- lack of legal and financial records;
- lack of an updated cadastral plan;
- the initial post war and post 1989 confiscation of land with or without indemnification and other complexities in the transfer of ownership rights;

A role is also outlined for IFDC in the privatization /commercialization process, involving the identification of potential international and local investors and assist them in their negotiations with

DTI. The role of the trade associations is also stressed, as their members can act as candidates for the lease, management and purchase of such assets.

In conclusion, the privatization /commercialization process was seen as taking longer than expected and is exacerbated by delays in drafting and approving regulations. The absence of good working relations among departments was also identified as a serious obstacle given the necessary interaction of DAFRD (Pillar II) and DTI (Pillar IV) in the process. See section 3.5 below for APSU follow-on activities in this policy area.

3.4 Fiscal Reform Papers, March 2001

Proposed Removal of Customs Duty on Specific Agricultural Products

This is first of two documents prepared in February/March 2001 to raise the profile of key issues identified by the recently established Alliance of Kosova Agribusinesses as immediate policy priorities constraining the development of the agricultural sector in Kosova. The paper focuses on customs duties charged on agricultural inputs, animal feed and wheat and outlines a proposal for their removal. The proposal is supported by financial analysis of the impact on both budget revenues and on the industries affected.

The main arguments presented are as follows:

- Financial evidence from farm and enterprise analysis demonstrate net revenue gains over four years resulting from customs duty removal on agricultural inputs, animal feed and wheat of nearly DM 8 million per annum. This is considered an underestimate of real gains given the inevitable impact on other sub-sectors not covered by the analysis.
- Financial evidence of the returns to the Kosova budget as a result of maintaining the current customs duties shows growth of less than DM 2 million per annum.
- The extreme low levels of productivity in Kosova and the need for incentives to promote improved farm technology and practice, including access to affordable agricultural inputs and other intermediary products.
- The critical situation faced by farmers and processors in Kosova due to general price and trade liberalization and the short-term unintentional imbalance created by the current fiscal system.
- The need to encourage ‘value added’ processing within Kosova for products where there is some existing capacity and technology.
- Comparative experience information and analysis throughout Europe which indicate that in Kosova today the agricultural trade policies in place and planned are somewhat inconsistent with both transitional and western experience for the sector. Specifically:
 - Standard tariffs in most transition economies have tended to follow a distinct pattern i.e. establishing higher tariff levels for agricultural products for which the country had some form of comparative advantage (either perceived or real) and lower or zero tariffs for primary and intermediate agricultural commodities for which the country was a net importer. Many of these tariff measures are still in place today;
 - Levels of protection, tariffs and import surcharges for those products that offered some form of comparative advantage were also increased over time in the early stages of transition (4-5 years). The duration and extent of import barriers often varied widely and reflected, in part, domestic production outcomes.

Establishment of a Level Playing Field for Kosova Agricultural Products

This paper summarizes the destructive effect of unfair competition from imports on a transition economy despite the introduction of flat rate custom duties of 10% on most imported agricultural products. The report emphasized the following findings:

- Even though a number of products that had been exempt from duty including fruit and vegetables would be removed from exemption on 1st June year, the custom duties does not apply to imports from Macedonia, Montenegro and Serbia.
- These countries represent over 60% of key agricultural products to Kosova, severely weakening the existing system. Products exported from these countries tend to be subject to less controls in general, are closely linked to subsidized state and socially owned producers and consequently, sales prices tend not to reflect true economic value. Domestic producers simply cannot compete in such a market place.
- The document proposes introduction of transitional measures to allow domestic production to recover and compete openly. It suggests a universal customs duty to be applied to all Kosova borders for exporting countries for primary agricultural commodities for which Kosova production has a comparative advantage, such as eggs, fruit and vegetables and milk and dairy products.
- The political sensitivity of such a proposal was recognized in the paper, as a result of which other trade regulatory measures were suggested as alternatives, including:
 - a) Import quotas for key products – the introduction of an import quota system for certain commodities that would specify the maximum amount that can be imported into Kosova in any one season. This could be regulated through allocation of import licenses that could be sold through an open and competitive auction process.
 - b) Tariff-rate quotas – the introduction of a system that would minimize the amount of produce that could enter Kosova at a lower or zero tariff rate but charging a higher import tariff on those products imported above that minimum. The advantage of this policy is that it would prevent unduly penalizing consumers should domestic production not be able to fully meet domestic demand and would prevent directly compromising existing regional trade agreements.

Members of AKA presented these two documents to representatives of the CFA, DAFRD, Customs and Excise and other relevant organizations at the KADP organized seminar *Agricultural Taxation, Comparative Experience and Implications for Kosova* held in late March. In addition to distributing the seminar conclusions, the APSU followed up actively on the policy papers by assisting AKA members to develop additional analyses to back up their position.

As a result of the above initiatives, working relations are now well established between the KADP's Agribusiness Policy Support Unit (APSU) and the CFA, including cooperation in seminar presentations and several working meetings to discuss future fiscal reform on a number of pressing issues.

AKA representatives were pleased to hear in early June 2001 that the CFA was actively considering a reduction of customs duties on certain agricultural inputs, in line with similar reductions for capital goods, and also considering the protection of certain agricultural products from unfair competition. When questioned as to which inputs were under consideration, CFA suggested that APSU submit a list of those it considered most expedient to boost domestic production and processing.

In response, APSU in conjunction with AKA, produced a list of products, along with a brief justification for their exemption from customs duties, summarizing the arguments previously presented in the AKA

discussion papers. The products included agricultural inputs for use in primary production, animal feed, and wheat. On receipt of the list, the CFA expressed immediate concern that it included products that Kosova produced itself and that a removal of customs duties on such products would have negative consequences for local producers.

AKA in conjunction with IFDC's APSU agreed therefore to conduct some further analysis of the products in question to establish the extent to which they were produced domestically and the impact that a removal of customs duties may have on such production.

3.5 Promoting Effective Use and Protection of State and Socially Owned Farmland in Kosova, April 2001

This paper, like those in section 1.2.4 above, was produced in response both to the policy priorities agreed by the AKA associations and to the fact that state and socially owned farms are in urgent need of restructuring, without which many are in danger of total collapse. The report was based on the work conducted by IFDC in conjunction with DAFRD and DTI in March and April and set out a structure for continued cooperation on agricultural commercialization. The report's main findings were as follows:

- State and socially owned farms are cultivating as little as 20% of their land, employing only one quarter of their pre-1990 employees and operating a similar fraction of their pre-war machinery. Changes are already taking place on many of these farms with respect to use rights, which will, without effective intervention, reduce the availability of prime agricultural land and restrict options for fundamental restructuring irreversibly.
- The paper outlines a short to medium term work plan to overcome these difficulties. It focuses primarily on bringing the sector back into production and introducing market principles within the current legal framework.
- Once UNMIK has resolved its position on the issue of privatization and conflicting ownership claims have been assessed, ownership of the land and associated property can be split between those with provable ownership rights and lessees who have invested time and capital in bringing the assets back into production.
- Immediate actions are suggested for the working groups established by the DAFRD/DTI/IFDC commercialization initiative, which build on the experience of the DTI in commercializing industrial and processing enterprises and incorporate elements of the informal lease system used on the farms themselves.

Although momentum was lost on commercialization in the aftermath of this report, by the end of May one farm, the 2,339 hectare *Produkti* employing 100 people in the Skenderai municipality, had been offered for tender. Follow up activity by KADP included the conduct of a comparative analysis of land reforms in Eastern Europe and the recruitment of a legal land reform specialist to identify the legal possibilities for the commercialization and privatization of state and socially owned farmland.

4. Conclusions and Outlook for 2001-2

Throughout the year, the trade associations acted as the point of departure for KADP Agribusiness Policy Support Unit activities. APSU members and short term consultants sat in on board meetings and visited members in order to ensure solid grass-roots support for their initiatives. This cooperation between the two arms of project activity resulted in agreement to form the Alliance of Kosova Agribusinesses in March 2001 for joint association advocacy initiatives.

APSU staff, in conjunction with the trade associations and representatives of USAID, have worked to achieve the following concrete results in the 2000-1 project year:

- Advocacy to the CFA to remove the 10% custom duties on fertilizers from October 6th 2000 (fertilizer imports are now subject only to 15% VAT, a reduction from the previous combined 26.5%).
- Advocacy to CFA to remove the tariffs exemption on imported flour from June 1st 2001. From this date imported flour will be subject to the full 26.5% combined tariff, thereby leveling the playing field for domestic millers and encouraging the importation of wheat for milling within Kosova.
- Encouraging the DAFRD to include a representative of the private sector trade association KODAA in its Committee of Seed Variety Evolution and Approval.
- Informing trade associations and AKA in all relevant policy developments in the agricultural sector.

More indirect results of APSU activities can be found in the following overall developments in the agricultural sphere over the past year:

- Increase of imported fertilizer from 9,000 tonnes in 1998 to 53,500 in 2000;¹
- Increase of wheat production from 100,000 tonnes in 1998 to 161,000 in 2000;
- Similar increases in yields of other crops as a result of increased fertilizer use and improved techniques;
- Increase in membership of the KADP supported trade associations. To date paid membership of the associations had reached the following levels: KODAA – 200, SHPUK – 95, SHMK – 75.

In the next project year (2001-2) the policy unit will focus its activities on a continuation of the fiscal and land reform initiatives ongoing from the previous year and in additional activities as follows:²

1. Continuation of ongoing activities:

- Alliance of Kosovar Agribusinesses (AKA) Development
- Fiscal Policy Reform
- Commercialisation / Privatisation of Agricultural Enterprises

2. Initiation of new activities:

- Staff training
- Crop Diversification
- Framework Laws & Regulations
- Food Safety & Quality Control

¹ The data are taken from IFDC paper: *Needs Assessment Report*

² See annex for Policy Matrix and Monitoring System 2001-2.

5. Annex. Agri-business Policy Support Unit (APSU) Policy Matrix and Monitoring System 2001-2

Activity	Priority	Result	Output*	Timeframe	Practitioner
1. Alliance of Kosovar Agribusinesses (AKA) Development	High	<p>1.1 Robust and sustainable alliance with proven successes in policy reform;</p> <p>1.2 Solid relationship between AKA and APSU as basis for future activity;</p> <p>1.3 Close links forged between AKA/APSU and future Kosova decision-makers.</p>	<p>1.1.1 Establishment of AKA to act as advocate for association members;</p> <p>1.1.2 Preparation of AKA by-laws and official UNMIK registration;</p> <p>1.1.3 Capacity to attract financing for AKA-APSU activities after project end.</p> <p>1.2.1 Regular meetings of APSU with AKA representatives to agree/revise priorities and strategies.</p> <p>1.3.1 Organization of AKA for November elections to ensure alliance priorities included in party manifestos;</p> <p>1.3.2 Establishment of Kosova Parliamentary Committee for Agriculture.</p>	<p>Y1Q4f</p> <p>Y2Q1</p> <p>Y2Q2-3</p> <p>Ongoing</p> <p>Y2Q1-2</p> <p>Y2Q3-4</p>	APSU
2. Fiscal Policy Reform	High	<p>2.1 Establish producer-oriented advocacy position for AKA at fiscal policy table;</p> <p>2.2 Removal of customs duty on AKA-selected agricultural inputs.</p> <p>2.3 Establishment of a more level playing field for agricultural products to restart domestic production.</p> <p>2.4 Increased awareness of VAT application and payments by association members.</p>	<p>2.1.1 Liaise with CFA and DAFRD on agricultural tax policy and its impact on the associations.</p> <p>2.2.1 Cost-benefit analysis of customs duties;</p> <p>2.2.2 Supply of additional analyses of customs duties as requested by CFA & DAFRD.</p> <p>2.3.1 Report analyzing effect on Kosovar producers of the trade policies of other countries;</p> <p>2.3.2 Supply of additional analyses of benefits as requested by CFA & DAFRD.</p> <p>2.4.1 Report outlining impact of VAT on agricultural suppliers & producers;</p> <p>2.4.2 Training of association members in VAT calculation and distribution of practical guidelines on VAT.</p>	<p>Ongoing</p> <p>Y1Q4f</p> <p>Y2Q1</p> <p>Y1Q4f</p> <p>Y2Q1</p> <p>Y2Q1</p> <p>Y2Q1</p>	<p>APSU</p> <p>APSU</p> <p>Short-term consultant & APSU</p>

Activity	Priority	Result	Output	Timeframe	Practitioner
3. Commercialisation / Privatisation of Agricultural Enterprises	High	3.1 Restarting production on state and socially owned agricultural enterprises.	3.1.1 Report adapting DTI procedure for application to non-private farms;	Y1Q4f	Short-term Lawyer & APSU
			3.1.2 Legal analysis providing framework for commercialization of land and property;	Y2Q1	
			3.1.3 Cooperation with DTI and DAFRD on implementing commercialization strategy.	Y2Q1-3	
		3.2 Agreement by DAFRD & DTI of a privatization strategy for farmland and related assets.	3.2.1 Report outlining possible privatization procedure for non-private farmland;	Y2Q1	Short-term Lawyer & APSU
			3.2.2 Promotion to DAFRD & DTI of proposed procedure.	Y2Q1-2	
4. Staff Training	High	4.1 Establishment of core staff trained to continue policy analysis and advocacy after project withdrawal.	4.1.1 Inclusion of IFDC APSU in new DAFRD capacity-building courses;	Y2Q1-4	APSU
			4.1.2 Inclusion of APSU and AKA committee in policy-related courses provided by international community.	Ongoing	
		4.2 Training in IFDC-initiated successes and obstacles in the policy environment in Albania.	4.2.1 Organization by IFDC Albania of a policy-related course for APSU and AKA committee;	Y2Q1	APSU
			4.2.2 Write-up of lessons learnt from Albanian experience.	Y2Q1	
		4.3 In-depth knowledge of developments in the policy environment.	4.3.1 Prepare bi-annual summary of agriculture-related regulatory and policy developments.	Y2Q1 & 3	APSU
		4.4 Training in policy formulation in the newly independent states of the Former Yugoslavia.	4.4.1 Organization of study tour to Ministries of Agriculture and private/NGO advocacy groups in Zagreb & Ljubljana;	Y2Q3	
			4.4.2 Write-up of lessons learnt from Croatian & Slovenian experiences.		
		4.5 Training in government relations and use of media for advocacy, data sources, policy formulation and WTO membership.	4.5.1 Training by Bosnian Ministry of Foreign Trade in information sources, policy formulation & WTO membership;	Y2Q4	Short Term Consultants & APSU
			4.5.2 Training by agricultural reform advocate in government relations and use of media;	Y2Q3	
			4.5.3 Write-up of lessons learnt.	Y2Q3&4	

Activity	Priority	Result	Output	Timeframe	Practitioner
5. Crop Diversification	Medium	5.1 Increased understanding by agricultural businessmen and UNMIK / local authorities of: a) potential diversification crops, b) impediments to diversification, c) policy/practice change required to enable diversification.	5.1.1 Report outlining areas of potential import substitution; 5.1.2 Series of case studies outlining niche crops suited to export to selected markets (soft fruits, nuts, organic crops etc.); 5.1.3 Identification of policy restraints to development of new crops selected and promotion of change to UNMIK authorities; 5.1.4 Promotion of crop diversification through associations.	Y2Q2-3 Y2Q2-3 Y2Q3-4 Y2Q3-4	Series of Short-term Consultants & APSU
6. Framework Laws & Regulations	Medium	6.1 Improved regulatory framework for private sector interests represented by associations.	6.1.1 Development of laws and regulations in conjunction with DAFRD on seed, fertilizer, CPC, animal feed and food; 6.1.2 Establishment of certification procedures for handling and application of CPCs with official acknowledgement by authorities.	Y2Q1-4	AKA & APSU
7. Food Safety & Quality Control	Low	7.1 Improvements to regulatory and monitoring systems for food safety and quality control(imports & domestic produce); 7.2 Developed association awareness of food safety and quality control regulation through AKA.	7.1.1 Report outlining areas requiring improvement in the establishment & enforcement of food safety and quality control regulation; 7.1.2 Liaison with DAFRD and other bodies on progress in food safety and quality control. 7.2.1 Analysis of IFDC Albania experience in development standards for associations; 7.2.2 Organization of training for associations in establishing producer / retailer standards.	Y2Q4 Ongoing Y2Q4 Y2Q4	Short-term consultant & APSU

* Training seminars, roundtable discussions and information dissemination via press to be scheduled where appropriate.